ABAQULUSI

UMASIPALA
MUNICIPALITY
MUNISIPALITEIT

AbaQulusi Local Municipality
Annual Financial Statements
for the year ended 30 June 2018

General Information

Mayoral Committee	
Mayor	MJ Sibiya
Deputy Mayor	MC Maphisa
Speaker	MB Khumalo
Executive Committee Member	BL Zwane
Executive Committee Member	T Nkosi
Executive Committee Member	PN Mazibuko
Executive Committee Member	PP Selepe
Executive Committee Member	IA De Kock
Executive Committee Member	NN Mdlalose
Councillor	MM Ntuli SN Ndlela B Ntombela AM Masondo DP Mazibuko LR Mhlongo NS Mgidi TA Khumalo LC Zwane L Dube CN Mbatha VC Mtshali MB Mabaso PM Mtshali DJ Mahlase MT Lushaba NY Mdlalose M Viktor MM Mhlungu TD Ndlovu XJ Zungu MM Kunene AP Mbatha NB Manana NA Kunene MA Mazibuko ZH Nxumalo KM Nthuli JJ Jones SS Siyaya MP Williams R Ally TZ Mavundla CJQ Radebe ZK Thwala
Grading of Local authority	Grade 04 Medium Capacity
Chief Financial Officer	HA Mahomed (cfo@abaqulusi.gov.za)
Bankers	ABSA Bank of South Africa Limited Nedbank of South Africa Limited Standard Bank
Auditors	Auditor General of South Africa

General Information

Telephone number	039 - 982 2133
Registered office	C/O, Mark and High Street

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
CIGFARO	Chartered Institute of Government Finance Audit and Risk Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The councillors are required by the Municipal Finance Management Act 56, to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the members to ensure that the annual financial statements fairly present the state of affairs of the entity as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The councillors acknowledge that they are ultimately responsible for the system of internal financial control established by the entity and place considerable importance on maintaining a strong control environment. To enable the members to meet these responsibilities, the councillors sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the entity and all employees are required to maintain the highest ethical standards in ensuring the entity's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the entity is on identifying, assessing, managing and monitoring all known forms of risk across the entity. While operating risk cannot be fully eliminated, the entity endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The councillors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The councillors have reviewed the entity's cash flow forecast for the year ended 30 June 2019 and, in light of this review and the current financial position, they are satisfied that the entity has or has access to adequate resources to continue in operational existence for the foreseeable future.

The entity is partly dependent on the community and state for continued funding of operations. The annual financial statements are prepared on the basis that the entity is a going concern and that Abaqulusi Local Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the entity.

I certify that the salaries, allowances and benefits of Councillors as disclosed in the note titled Remuneration of Councillors of these Annual Financial Statements are within the upper limits of the framework envisaged in section 219 of the Constitution, reda with the Remuneration of Public Offive Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The annual financial statements set out on page 4 to 72, which have been prepared on the going concern basis, were approved by the Accounting Officer on 31 August 2018:

B.E Ntanzi
Accounting Officer

Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017
Assets			
Current Assets			
Inventories	8	13,910,269	8,521,937
Receivables from non-exchange transactions	9	55,703,524	43,109,053
VAT receivable	10	27,644,943	4,392,883
Receivables from exchange transactions	11	42,967,156	38,650,889
Cash and cash equivalents	12	11,938,775	12,076,835
		152,164,667	**106,751,597**
Non-Current Assets			
Investment property	3	13,524,973	13,543,473
Property, plant and equipment	4	1,563,221,697	1,574,897,743
Intangible assets	5	967,061	1,222,105
Heritage assets	6	3,854,571	3,854,571
Receivables from exchange transactions	11	5,502,319	5,502,319
		1,587,070,621	**1,599,020,211**
Non-Current Assets		1,587,070,621	1,599,020,211
Current Assets		152,164,667	106,751,597
Total Assets		**1,739,235,288**	**1,705,771,808**
Liabilities			
Current Liabilities			
Payables from exchange transactions	15	123,107,568	109,554,340
VAT payable	16	25,415,391	-
Consumer deposits	17	13,199,806	13,759,859
Unspent conditional grants and receipts	13	18,378,762	14,244,686
		180,101,527	**137,558,885**
Non-Current Liabilities			
Employee benefit obligation	7	70,735,000	74,430,000
Provisions	14	27,141,705	23,058,965
		97,876,705	**97,488,965**
Non-Current Liabilities		97,876,705	97,488,965
Current Liabilities		180,101,527	137,558,885
Total Liabilities		**277,978,232**	**235,047,850**
Assets		1,739,235,288	1,705,771,808
Liabilities		(277,978,232)	(235,047,850)
Net Assets		**1,461,257,056**	**1,470,723,958**
Accumulated surplus		1,461,257,056	1,470,723,958

*Refer to note 52

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017
Revenue			
Revenue from exchange transactions			
Post employment benefits	7	3,695,000	-
Interest received - investment	22	2,869,791	2,259,974
Landfill Site - decrease in provision	14	-	40,348,350
Licences and permits	18	4,624,914	4,292,173
Other income		491,091	26,629
Rental of facilities and equipment	18	1,463,324	979,858
Service charges	19	253,245,640	215,044,398
Total revenue from exchange transactions		**266,389,760**	**262,951,382**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	70,448,181	61,916,699
Property rates - penalties imposed	23	3,286,106	3,233,236
Transfer revenue			
Government grants & subsidies	24	170,819,831	157,641,843
Fines, Penalties and Forfeits	20	12,327,021	10,417,223
Total revenue from non-exchange transactions		**256,881,139**	**233,209,001**
		266,389,760	262,951,382
		256,881,139	233,209,001
Total revenue	18	**523,270,899**	**496,160,383**
Expenditure			
Employee related costs	25	(155,855,668)	(137,912,531)
Remuneration of councillors	26	(16,328,174)	(16,144,597)
Finance Costs - general	28	(19,434,186)	(22,682)
Depreciation, amortisation and impairment	27	(74,433,658)	(62,661,145)
Hire of Vehicle and Equipment	32	(17,403,114)	(16,511,741)
Contribution to Provision for Doubtful Debts		(25,412,820)	(17,700,246)
Fair value loss	3	(18,500)	(13,402,708)
Repairs and maintenance	29	(5,620,987)	(9,622,044)
Bulk purchases	30	(114,329,479)	(149,608,870)
Contracted services	31	(47,986,336)	(41,613,916)
Post-employment benefits	7	-	(5,151,000)
General Expenses	33	(55,790,200)	(87,256,534)
Total expenditure		**(532,613,122)**	**(557,608,014)**
Loss on disposal of assets and liabilities	34	(124,684)	(3,081,730)
Operating surplus/deficit		(124,684)	(3,081,730)
Deficit before taxation		(9,466,907)	(64,529,361)
Taxation		-	-
Deficit for the year		**(9,466,907)**	**(64,529,361)**

*Refer to note 52

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	1,570,050,046	1,570,050,046
Adjustments		
Prior year adjustments - refer to note 41	(34,796,727)	(34,796,727)
Balance at 01 July 2016 as restated*	**1,535,253,319**	**1,535,253,319**
Changes in net assets		
Surplus for the year restated - refer note 41	(64,529,361)	(64,529,361)
Total changes	(64,529,361)	(64,529,361)
Balance at 01 July 2017 restated*	**1,470,723,963**	**1,470,723,963**
Changes in net assets		
Surplus for the year	(9,466,907)	(9,466,907)
Total changes	(9,466,907)	(9,466,907)
Balance at 30 June 2018	**1,461,257,056**	**1,461,257,056**

Note(s)

AbaQulusi Local Municipality
Annual Financial Statements for the year ended 30 June 2018

Cash Flow Statement

Figures in Rand	Note(s)	2018	2017
Cash flows from operating activities			
Receipts			
Receipts from customers		331,691,310	292,540,609
Grants and subsidies		170,819,831	157,641,843
Interest income		2,869,791	2,259,974
VAT Received		2,739,812	18,880,224
		508,120,744	471,322,650
Payments			
Employee costs		(172,183,842)	(139,728,348)
Suppliers		(263,969,150)	(306,660,208)
Finance costs		(12,835,634)	(22,680)
		(448,988,626)	(446,411,236)
Total receipts		508,120,744	471,322,650
Total payments		(448,988,626)	(446,411,236)
Net cash flows from operating activities	36	**59,132,118**	**24,911,414**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(59,270,178)	(26,456,286)
Proceeds from sale of property, plant and equipment	4	-	(2)
Net cash flows from investing activities		**(59,270,178)**	**(26,456,288)**
Net increase/(decrease) in cash and cash equivalents		**(138,060)**	**(1,544,874)**
Cash and cash equivalents at the beginning of the year		12,076,835	13,621,709
Cash and cash equivalents at the end of the year	12	**11,938,775**	**12,076,835**

AbaQulusi Local Municipality
Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	249,212,910	-	**249,212,910**	253,245,640	**4,032,730**	
Rendering of services	1,852,940	-	**1,852,940**	-	**(1,852,940)**	51.4
Rental from fixed assets	1,324,650	-	**1,324,650**	1,463,324	**138,674**	51.6
Licences and permits	2,000,000	-	**2,000,000**	4,624,914	**2,624,914**	51.2
Fees earned	-	-	-	3,695,000	**3,695,000**	51. 5
Other income	-	-	-	491,091	**491,091**	51.1
Interest dividend and rent on land	4,750,000	-	**4,750,000**	2,869,791	**(1,880,209)**	51.3
Total revenue from exchange transactions	**259,140,500**	**-**	**259,140,500**	**266,389,760**	**7,249,260**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	65,000,000	-	**65,000,000**	70,448,181	**5,448,181**	
Licences and permits	2,530,000	-	**2,530,000**	3,286,106	**756,106**	51.8
Interest	13,000	-	**13,000**	-	**(13,000)**	51.9
Transfer revenue						
Government grants & subsidies	155,674,000	-	**155,674,000**	170,819,831	**15,145,831**	51.7
Fines, Penalties and Forfeits	3,470,500	(3,470,500)	-	12,327,021	**12,327,021**	51.10
Total revenue from non-exchange transactions	**226,687,500**	**(3,470,500)**	**223,217,000**	**256,881,139**	**33,664,139**	
'Total revenue from exchange transactions'	259,140,500	-	**259,140,500**	266,389,760	**7,249,260**	
'Total revenue from non-exchange transactions'	226,687,500	(3,470,500)	**223,217,000**	256,881,139	**33,664,139**	
Total revenue	**485,828,000**	**(3,470,500)**	**482,357,500**	**523,270,899**	**40,913,399**	
Expenditure						
Employee related costs	(143,594,000)	20,310	**(143,573,690)**	(155,855,668)	**(12,281,978)**	
Remuneration of councillors	(17,650,337)	-	**(17,650,337)**	(16,328,174)	**1,322,163**	
Finance costs	(600,000)	100,000	**(500,000)**	(19,434,186)	**(18,934,186)**	51.11
Depreciation and amortisation	(87,515,756)	34,915,512	**(52,600,244)**	(74,433,658)	**(21,833,414)**	
Bad debts written off	(6,903,000)	-	**(6,903,000)**	-	**6,903,000**	51.12
Lease rentals on operating lease	(19,336,000)	5,620,500	**(13,715,500)**	(17,403,114)	**(3,687,614)**	51.13
Contribution to provision for doubtful debts	(27,254,650)	10,805,150	**(16,449,500)**	(25,412,820)	**(8,963,320)**	51.14
Fair value loss	-	-	-	(18,500)	**(18,500)**	
Repairs and maintenance	-	-	-	(5,620,987)	**(5,620,987)**	
Bulk purchases	(147,500,000)	-	**(147,500,000)**	(114,329,479)	**33,170,521**	51.15
Contracted Services	(58,748,750)	4,749,150	**(53,999,600)**	(47,986,336)	**6,013,264**	
Transfers and subsidies	(22,127,104)	18,140,604	**(3,986,500)**	-	**3,986,500**	51.16
General expenses	(38,491,740)	(19,999,340)	**(58,491,080)**	(55,790,200)	**2,700,880**	51.17
Total expenditure	**(569,721,337)**	**54,351,886**	**(515,369,451)**	**(532,613,122)**	**(17,243,671)**	

AbaQulusi Local Municipality
Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	485,828,000	(3,470,500)	**482,357,500**	523,270,899	**40,913,399**	
	(569,721,337)	54,351,886	**(515,369,451)**	(532,613,122)	**(17,243,671)**	
Operating deficit	**(83,893,337)**	**50,881,386**	**(33,011,951)**	**(9,342,223)**	**23,669,728**	
Loss on disposal of assets and liabilities	-	-	-	(124,684)	**(124,684)**	
	(83,893,337)	50,881,386	**(33,011,951)**	(9,342,223)	**23,669,728**	
	-	-	-	(124,684)	**(124,684)**	
Deficit before taxation	**(83,893,337)**	**50,881,386**	**(33,011,951)**	**(9,466,907)**	**23,545,044**	
Surplus before taxation	(83,893,337)	50,881,386	**(33,011,951)**	(9,466,907)	**23,545,044**	
Taxation	-	-	-	-	-	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(83,893,337)**	**50,881,386**	**(33,011,951)**	**(9,466,907)**	**23,545,044**	

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act 56.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the Municipality .

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Revenue Recognition

Accounting policy 1.15 & 1.16 on Revenue from Exchange Transactions and Revenue from Non-ExchangeTransactions' describes the conditions under which revenue will be recorded by the management of the municipality. In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

Financial Assets and Liabilities

The classification of financial assets and liabilities into categories is based on judgement by management.

Impairment of Financial Assets

Accounting policy 1.7 Financial Instruments describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the mangement of the municipality considered the detailed criteria of imapirment of financial assets as set out in GRAP 104: Financial Instruments. The management of the municipality is satisfied that the impairment of financial assets recorded during the year, is appropriate.

Useful lives of Property Plant and Equipment

As described in Accounting Policies 1.4 and 1.5, the municipality depreciates/amortises its property plant and equipment and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives and residual values of the assets are based on industry norms.

Impairment

Write down of property plant and equipment, intangible assets and inventories.
The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable.

Defined Benefit Plan Liabilities

As described in accounting policy 1.13 Employee Benefits, the municipality obtains acturial valuations of its defined benefit plan laibilities. The defined benefit obligations of the municipality that were identified are Post-Retirement Health Benefit Obligations and Long Service Awards. The estimated liabilities are recorded in accordance with the requirements of GRAP 25 Employee Benefits. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in Note 7 to the financial statements.

Going Concern Assumption

The financial statements have been prepared on a going concern basis.

Offsetting

Assets, liabilities, revenue and expenses have not been offset, except when offsetting is required or permitted by a standard of GRAP.

Provisions

Provisions have been raised by the municpality. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

This entails determining the fair vale of investment properties on a regular basis. To the extent that the fair value is applied investment property is not depreciated. Fair value gains/losses that result from the revaluation are recognised in the Statement of Financial Performance.

Impairments

The entity tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an Investment Property is greater than the estimated recoverable anount, it is wriiten down immediately to its revoverable amount and an impairment loss is charged to the Statement of Financial Performance.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of the impairment is recognised in the Statement of Financial Performance.

Derecognition

An Investment Property is derecognised when there is a disposal or no future economic benefits or service potential are to be derived from the property. All gains or losses, which result from the derecognition, are recognised in the Statement of Financial Performance.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Accounting Policies

1.4 Property, plant and equipment (continued)

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Subsequent Measurement

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Depreciation

Land is not depreciated as it is regarded as having an indefinite life. Depreciation of assets other than land is calculated,using the straight line method, to depreciate their cost to their residual values over the estimated useful lives of the assets.The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality.Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The depreciation rates are based on the following estimated useful lives. Depreciation only commences when the asset is available for use, unless stated otherwise.

The useful lives of items of property, plant and equipment have been assessed as follows:

Infrastructure	Useful Life
• Roads and stormwater	05 - 80 years
• Electricity	03 - 50 years
• Sanitation	15 - 100 years
• Water	05 - 80 years
• Housing	03 - 50 years
• Landfill sites	15 - 50 years
Community	
• Sport and recreational facilities	05 - 50 years
• Cemeteries	05 - 50 years
• Halls	05 - 50 years
• Libraries	05 - 50 years
• Parks	05 - 50 years
• Fire/Ambulance Station	05 - 50 years
• Clinics	05 - 50 years
• Sports fields	15 - 30 years
• Stadium	05 - 50 years

1.4 Property, plant and equipment (continued)

Other

• Transport Assets	05 - 15 years
• Machinery and Equipment	02 - 15 years
• Computer Equipment	03 - 07 years
• Office Equipment	03 - 10 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Assets which the entity holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

Capital Work in Progress

Capital work in progress is stated at historical cost. Depreciation only commences when the asset is available for use.

Finance Leases

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as PPE controlled by the entity or where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

Infrastructure Assets

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality.

Derecognition of Property, Plant and Equipment

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from derecognition of an item of property, plant and equipment is included in surplus or deficit for the year when the item is derecognised. Gains or losses are calculated as the difference between the net book value of assets (cost less accumulated depreciation and accumulated impairment losses) and the sales proceeds.

Impairment testing

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable.
The municipality has identified all its capital assets, excluding Investment Property, as non-cash generating assets as it's the municipality's view that the primary objective of these assets are to provide a service and not to generate a commercial return.

Useful lives of assets

The municipality's management determines the estimated useful lives and related depreciation charges. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

1.5 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and
- the cost or fair value of the asset can be measured reliably.

Cost
An intangible asset shall be measured initially as cost. Where an intangible asset is acquired through a non-exchnage transaction, its initial cost at the date of acquisition shall be measured at its fair value as at that date. The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

De-recognition
An intangible asset shall be de-recognised on disposal or when no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from the derecognistion of an intangible asset shall be determined as the difference between the net disposal proceeds, if any and the carrying amount of the asset. It shall be recongised in surplus or deficit when the asset is derecognised.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Subsequent measurement
An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Useful life
Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Accounting Policies

1.5 Intangible assets (continued)

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software, internally generated	Straight line	05 - 10 years
Computer software, other	Straight line	05 - 10 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

1.6 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The entity recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the entity, and the cost or fair value of the asset can be measured reliably

A Heritage asset that qualifies for recogition as an asset shall be initially measured at its cost.

Where a heritage asset is acquired through a non-exchange transaction will it be measured at its fair value as at the date of acquisition and is carried at its cost less any accumulated impairment losses. In instances where cost is not determinable, the municipality has taken advantage of the transitional provisions.

Heritage assets are not depreciated but the municipality will assess at each reporting date based on external and internal sources of information whether there is an indication that it may be impaired. Transfers from heritage assets shall be made when and only when the particular asset no longer meets the definition of a heritage asset. Likewise transfer to heritage assets shall be made when and only when the asset meets the definiton of a heritage asset.

Heritage assets which are shown at cost, are not depreciated due to the uncertainty regarding their estimated useful lives, as reflected below:

Memorials & Statues	- indefinite life
Heritage Sites	- indefinite life
Museums	- indefinite life
Art Works	- indefinite life

Although a heritage asset is not depreciated, the asset is assessed for impairment at each reporting date to disclose whether there is an indication that it may be impaired.

Initial measurement

Heritage assets are measured at cost.

1.6 Heritage assets (continued)

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Impairment

The entity assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the entity estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

1.7 Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

1.7 Financial instruments (continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:
- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

1.7 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

1.8 Leases (continued)

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

Income from leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.10 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. when the asset is deployed in a manner consistent with that adopted by a profit-oriented entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

1.10 Impairment of cash-generating assets (continued)

Recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the entity; or
- (b) the number of production or similar units expected to be obtained from the asset by the entity.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the entity estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the entity applies the appropriate discount rate to those future cash flows.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the entity recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the entity determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the entity use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

1.10 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The entity assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.11 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

1.11 Impairment of non-cash-generating assets (continued)

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the entity; or
- (b) the number of production or similar units expected to be obtained from the asset by the entity.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The entity assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the entity estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the entity recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.11 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The entity assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.12 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.13 Contingent Assets and Contingent Liabilities

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 41 to the annual financial statements.

1.14 Conditional Grants and Receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.15 Employee benefits

GRAP 25 on employee benefits is to provide accounting principles for amounts or benefits due to employees, their spouses or third parties when employees have rendered services to the municipality, and the rendering of those services entitles employees to certain benefits.This standard prescribes similar requirements to those in terms of IAS 19: Employee Benefits which the municipality has been following in the prior year. Since IAS 19 has been applied in developing the current accounting policy, no significant impact on the financial statements of the Municipality is expected..

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

1.15 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

1.16 Provisions and contingencies

Provisions are recognised when:
- the entity has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

1.16 Provisions and contingencies (continued)

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the entity

No obligation arises as a consequence of the sale or transfer of an operation until the entity is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

The entity recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the entity for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the entity considers that an outflow of economic resources is probable, an entity recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.17 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date.

Interest, Service Fees

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the entity, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.18 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by the entity, which represents an increase in net assets, other than increases relating to contributions from owners.

1.18 Revenue from non-exchange transactions (continued)

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the entity.

When, as a result of a non-exchange transaction, the entity recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

1.18 Revenue from non-exchange transactions (continued)

Taxes

The entity recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the entity controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

Value Added Tax (VAT):

The municipality accounts for VAT on the payment basis.

Fines

As per IGRAP1 assessing and recognising impairment is an event that takes place subsequent to initial recognition of revenue charged. A provision is raised accordingly when the entity assess the probability of revenue collection. The provision for traffic fines has been calculated based on the historical collection rate.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably.

1.19 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.20 Comparative figures

Prior year comparatives

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated, unless a standard of Grap does not require the restatements of comparative information. The nature and reason for the reclassification is disclosed. Where material accounting errors have been identified in the curent year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.21 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

1.22 Fruitless and wasteful expenditure (continued)

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Irregular expenditure

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.24 Budget information

Entity are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by entity shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget covers the fiscal period from 30/06/2017 to 30/06/2018.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

1.25 Related parties

A related party is person or an entity with the ability to control or jointly control the other party or exercise significant influence over the other party or vice versa or an entity that is subject to common control or joint control.

The entity operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

1.25 Related parties (continued)

Management are those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the entity.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.26 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The entity will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The entity will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.27 Cash and Cash Equivalents

Cash includes cash-on-hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments in financial instruments, net of bank overdrafts. Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

1.28 Changes in accounting policies, estimates and errors

Changes in accounting policies due to adoption of newly effective Standards of GRAP have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy or where allowed transitional provisions had been adopted. In such cases the municipality would restate the opening. The provisions of IGRAP 1 have been applied prospectively in line with IGRAP1.

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2018 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
- GRAP 20: Related parties	01 April 2019	Unlikely there will be a material impact
- GRAP 32: Service Concession Arrangements	01 April 2019	Unlikely there will be a material impact
- GRAP 34: Separate Financial Statements	No effective dates have been determined by the Minister of Finance	Unlikely there will be a material impact
- GRAP 35: Consolidated Financial Statements	No effective dates have been determined by the Minister of Finance	Unlikely there will be a material impact
- GRAP 36: Investments in Associates and Joint Ventures	No effective dates have been determined by the Minister of Finance	Unlikely there will be a material impact
- GRAP 37: Joint Arrangements	No effective dates have been determined by the Minister of Finance	Unlikely there will be a material impact
- GRAP 38: Disclosure of Interests in Other Entities	No effective dates have been determined by the Minister of Finance	Unlikely there will be a material impact
- GRAP 108: Grap on Statutory Receivables	01 April 2019	Unlikely there will be a material impact
- GRAP 109: Accounting by Principals and Agents	01 April 2019	Unlikely there will be a material impact
- GRAP 110: Living and Non-living resources	01 April 2020	Unlikely there will be a material impact

3. Investment property

	2018			2017		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	13,524,973	-	13,524,973	13,543,473	-	13,543,473

Reconciliation of investment property - 2018

	Opening balance	**Fair value adjustments**	**Total**
Investment property	13,543,473	(18,500)	13,524,973

Reconciliation of investment property - 2017

	Opening balance	**Fair value adjustments**	**Total**
Investment property	26,946,181	(13,402,708)	13,543,473

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the entity.

The effective date of the revaluation was 30 June 2018. Revaluations were performed by an independent valuer who are independent to the municipality and have experience in location and category of the investment property being valued. The valuation was based on open market value for existing use.

Figures in Rand	2018	2017

4. Property, plant and equipment

	2018			2017		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	144,170,100	-	144,170,100	143,720,100	-	143,720,100
Buildings	108,829,681	(35,977,839)	72,851,842	108,829,681	(32,503,140)	76,326,541
Other Property Solid Waste - Landfill site	57,034,948	(48,719,148)	8,315,800	49,286,660	(46,734,506)	2,552,154
AUC - Buidlings	20,030,790	-	20,030,790	10,433,901	-	10,433,901
Infrastructure	2,725,554,934	(1,581,963,039)	1,143,591,895	2,677,951,632	(1,520,543,952)	1,157,407,680
Community	240,023,184	(125,716,951)	114,306,233	233,407,859	(120,633,588)	112,774,271
Other property, plant and equipment	17,139,711	(12,238,776)	4,900,935	16,893,101	(10,401,917)	6,491,184
AUC - Roads and stormwater	23,944,375	-	23,944,375	55,440,905	-	55,440,905
Underdeveloped land	25,100,000	-	25,100,000	-	-	-
AUC - Electricity	6,009,727	-	6,009,727	6,009,727	-	6,009,727
AUC - Solid waste	-	-	-	3,741,280	-	3,741,280
Total	**3,367,837,450**	**(1,804,615,753)**	**1,563,221,697**	**3,305,714,846**	**(1,730,817,103)**	**1,574,897,743**

Reconciliation of property, plant and equipment - 2018

	Opening balance	**Additions**	**Additions through transfer of functions / mergers**	**Disposals**	**Depreciation**	**Impairment loss**	**Total**
Land	143,720,100	450,000	-	-	-	-	144,170,100
Buildings	76,326,541	-	-	-	(3,474,699)	-	72,851,842
Infrastructure	1,157,407,680	1,412,154	46,600,559	(119,739)	(54,895,834)	(6,812,925)	1,143,591,895
Community	112,774,271	-	6,669,485	(4,945)	(4,857,859)	(274,719)	114,306,233
Other property, plant and equipment	6,491,184	231,046	15,563	-	(1,693,005)	(143,853)	4,900,935
Other property Solid Waste - Landfill site	2,552,154	3,315,995	4,432,293	-	(1,984,642)	-	8,315,800
AUC - Roads and Stormwater	55,440,905	17,040,499	(48,537,029)	-	-	-	23,944,375
AUC - Buildings	10,433,901	14,345,467	(4,748,578)	-	-	-	20,030,790
AUC - Underdeveloped land	-	25,100,000	-	-	-	-	25,100,000
AUC - Electricity	6,009,727	-	-	-	-	-	6,009,727
AUC - Solid waste	3,741,280	691,012	(4,432,293)	-	1	-	-
	1,574,897,743	**62,586,173**	**-**	**(124,684)**	**(66,906,038)**	**(7,231,497)**	**1,563,221,697**

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Additions through transfer of functions / mergers	Disposals	Depreciation	Impairment loss	Total
Land	146,400,100	-	-	(2,680,000)	-	-	143,720,100
Buildings	79,828,464	-	-	-	(3,501,923)	-	76,326,541
Infrastructure	1,183,579,691	113,600	18,297,987	(381,149)	(41,684,227)	(2,518,222)	1,157,407,680
Community	117,199,194	-	455,787	(20,579)	(4,860,131)	-	112,774,271
Other property, plant and equipment	7,140,428	965,163	32,148	-	(1,646,555)	-	6,491,184
Other Property Solid Waste (Landfill Site)	7,868,959	2,072,903	-	-	(7,389,708)	-	2,552,154
AUC - Other	-	928,308	(928,308)	-	-	-	-
AUC - Roads and stromwater	56,049,389	17,249,130	(17,857,614)	-	-	-	55,440,905
AUC - Buildings	6,006,639	4,427,262	-	-	-	-	10,433,901
AUC - Electricity	3,225,323	2,784,404	-	-	-	-	6,009,727
AUC - Solid waste	-	3,741,280	-	-	-	-	3,741,280
	1,607,298,187	**32,282,050**	-	**(3,081,728)**	**(59,082,544)**	**(2,518,222)**	**1,574,897,743**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the entity.

Refer to note 52 for details on the AUC - underdeveloped land.

5. Intangible assets

	2018			2017		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	2,484,740	(1,517,679)	967,061	2,443,659	(1,221,554)	1,222,105

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Computer software, other	1,222,105	41,081	(296,125)	967,061

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software, other	471,056	942,232	(191,183)	1,222,105

6. Heritage assets

2018	2017

Figures in Rand	2018	2017

6. Heritage assets (continued)

	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical Buildings	2,858,229	-	2,858,229	2,858,229	-	2,858,229
Works of Art	83,810	-	83,810	83,810	-	83,810
Antiques	528,518	-	528,518	528,518	-	528,518
Stamps	1,350	-	1,350	1,350	-	1,350
Rare Books	14,364	-	14,364	14,364	-	14,364
Monuments and Memorials	368,300	-	368,300	368,300	-	368,300
Total	**3,854,571**	**-**	**3,854,571**	**3,854,571**	**-**	**3,854,571**

Reconciliation of heritage assets 2018

	Opening balance	Total
Historical Buildings	2,858,229	2,858,229
Works of Art	83,810	83,810
Antiques	528,518	528,518
Stamps	1,350	1,350
Historical monuments	14,364	14,364
Monuments and Menorials	368,300	368,300
	3,854,571	**3,854,571**

Reconciliation of heritage assets 2017

	Opening balance	Total
Historical Buildings	2,858,229	2,858,229
Works of Art	83,810	83,810
Antiques	528,518	528,518
Stamps	1,350	1,350
Rare Books	14,364	14,364
Monuments and Memorials	368,300	368,300
	3,854,571	**3,854,571**

The municipality has complied with GRAP 103. A full verification of heritage assets as well as to assign values to all heritage assets for those resepctive financial years. No change in value as at 30 June 2018. As per Directive 07 a list of all Heritage Assets has been included in the Fixed Asset Register of the municipality. This list is available for viewing at the main offices of the municipality.

7. Employee benefit obligations

Defined benefit plan

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(62,904,000)	(66,481,000)
Present value of the defined benefit obligation-partly or wholly funded	(7,831,000)	(7,949,000)
	(70,735,000)	**(74,430,000)**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

7. Employee benefit obligations (continued)

Net expense recognised in the statement of financial performance

Current service cost	3,083,000	3,822,000
Interest cost	6,278,000	6,648,000
Actuarial (gains) losses	(11,109,000)	(3,226,000)
Curtailment	(1,947,000)	(2,093,000)
	(3,695,000)	**5,151,000**

Figures in Rand	2018	2017

7. Employee benefit obligations (continued)

Post Employment Medical Benefits

Assumptions used at the reporting date:

Healthcare cost inflation	8.20 %	9.10 %
Discount rates used	9.90 %	10.00 %
Net discount	1.57 %	1.01 %

7. Employee benefit obligations (continued)

The municipality provides certain post retirement medical benefits by funding the medical aid contributions of certain retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current condition of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the municipality is liable for a certain portion of the medical aid membership fee. The most recent actuarial valuations of planned assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2018.

Methodology

GRAP 25 requires that the Projected Unit Credit Method be used to determine the present value of the defined benefit obligation.

Rationale for the economic assumptions

Discount rate

GRAP 25 requires that the discount rate used in the valuation be determined by reference to market yields on government bonds as at the balance sheet date. In line with GRAP 25 and current market practice, government bond yields are therefore used when setting our best-estimate discount rate assumption. The currency and term of the government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations.

The estimated discount rate was set equal to the yield on the BESA zero-coupon yield curve with a term of 16.5 years, the expected duration of the liability based on the current membership data, as at 30 June 2018.

Healthcare cost inflation

In the past, healthcare cost inflation has typically exceeded the Consumer Price Index ("CPI") by a margin of 1% to 2%.

The Bond Exchange of South Africa fits a real yield curve on index-linked bonds. This real yield curve is published together with the BEASSA yield curve on zero-coupon government bond yields, which is a nominal yield curve.

The inflation assumption is calculated as the difference between the nominal and real yield curves at the point corresponding to the duration of the liability, including a 0.5% inflation risk premium adjustment to make appropriate allowance for the current economic environment. A margin of 2% was added to this value to determine the healthcare cost inflation assumption.

The CPI inflation assumption using this methodology is 6.20% as at 30 June 2018. Thus, the healthcare cost inflation has been set as 8.20% at the valuation date, after allowing for a margin of 2% over CPI inflation.

Maximum subsidy increase

The subsidy arrangement is subject to a maximum employer contributions of R 3 942. We assumed that this maximum subsidy is expected to increase in line with healthcare cost inflation.

Net discount rate

The relationship between the gross discount rate and healthcare cost inflation rate is more important than the individual values. The net discount rate is also a highly significant assumption in the respective valuations.

The future medical benefits are projected in line with the healthcare cost inflation rate and discounted at the gross discount rate. This is equivalent to discounting the benefits at their current level at the net discount rate.

The net discount rate therefore depends on the relationship between the gross discount rate and the healthcare cost inflation rate respectively. Using the gross discount and healthcare cost inflation rates as shown above, the resulting net discount rate is 1.57% (calculated as (1+ discount rate)/(1+healthcare cost inflation rate)-1) for the 30 June 2018 valuation.

Summary of membership data used in the valuation - Current Employees	**30 June 2018 - Males**	**30 June 2018 - Females**	**30 June 2017 - Males**	**30 June 2017 - Females**
Number of current employees	161	88	157	86
Average age of employees	45	44	45	44

Figures in Rand			2018	2017

7. Employee benefit obligations (continued)

Average years of past service	11	11	11	11
Average total monthly premium of Principal Members (R)*	2,367	2,599	1,113	2,374
Average total monthly premium of Adult dependants (R)*	1,749	1,952	1,678	1,826
	-	-	-	-

Summary of membership data used in the valuation	**30 June 2018 - Males**	**30 June 2018 - Females**	**30 June 2017 - Males**	**30 June 2017 - Females**
Number of continuation members	17	30	18	32
Average age of conituation members	72	76	72	76
Actual percentage married (%)	88	7	89	6
Average total monthly premium of Principal members (R)*	4,618	4,531	4,389	4,367
Average total monthly premium of adult dependants (R)*	3,170	3,116	3,020	2,997
	-	-	-	-

Figures in Rand	2018	2017

7. Employee benefit obligations (continued)

Long Service Awards

Assumptions used at the reporting date:

	- %	- %
Gross discount rate	8.80 %	8.50 %
Salary inflation	7.40 %	7.30 %
Net discount rate	1.30 %	1.12 %

7. Employee benefit obligations (continued)

Long service awards

Long service benefits are awarded in the form of a number of leave days awarded once an employee has completed a certain number of years in service. We have converted the awarded leave days to a percentage of annual salary by assuming there are 250 working days per year.

The most recent actuarial valuations of planned assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2018.

Methodology

GRAP 25 requires that the Projected Unit Credit Method be used to determine the present value of the defined benefit obligation.

Rationale for the economic assumptions

Discount rate

GRAP 25 requires that the discount rate used in the valuation be determined by reference to market yields on government bonds as at the balance sheet date. In line with GRAP 25 and current market practice, government bond yields are therefore used when setting our best-estimate discount rate assumption.

The currency and term of the government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations.

The estimated discount rate was set equal to the yield on the BEASSA zero-coupon yield curve with a term of 6 years, the expected duration of the liability based on the current membership data, as at 30 June 2018.

Salary inflation

In the past, salary inflation has typically exceeded the Consumer Price Index ("CPI") by a margin of around 2%.

The Bond Exchange of South Africa fits a real yield curve on index-linked bonds. This real yield curve is published together with the BEASSA yield curve on zero-coupon government bond yields, which is a nominal yield curve.

The inflation assumption methodology has been updated to reflect the use of the real and nominal yield curves to determine the inflation assumption as this provides more accurate information on the outlook on inflation at specific durations. Therefore, the best estimate inflation assumption is calculated as the difference between the nominal and real yield curves at the point corresponding to the duration of the liability, including a 0.5% inflation risk premium adjustment to make appropriate allowance for the current economic environment. A margin of 2% was added to this value to determine the salary inflation assumption.

The CPI inflation assumption using this methodology is 5.40% as at 30 June 2018. Thus, the salary inflation has been set as 7.40% at the valuation date, after allowing for a margin of 2% over CPI inflation.

Net discount rate

The relationship between the gross discount rate and salary inflation rates are more important than their individual values.The net discount rate is also a highly significant assumption in the respective valuations.

The future long service awards are projected in line with the salary inflation rate and discounted at the gross discount rate. This is equivalent to discounting the benefits at their current level at the net discount rate.

The net discount rate therefore depends on the relationship between the gross discount rate and the salary inflation rate respectively. Using the gross discount and salary inflation rates as shown above, the resulting net discount rate is 1.30% (calculated as (1 + discount rate)/(1 + salary inflation rate) – 1) for the 30 June 2017 valuation.

Summary of membership data used in the valuation - Current Employees	**30 June 2018 - Males**	**30 June 2018 - Females**	**30 June 2017 - Males**	**30 June 2017 - Females**
Number of current employees	287	134	291	125

Figures in Rand			2018	2017

7. Employee benefit obligations (continued)

Average age of employees	47	44	47	44
Average years of past service	13	12	13	12
Average annual salary	174,490	174,331	165,568	179,458
	-	-	-	-

8. Inventories

	2018	2017
Electricity	7,910,824	4,932,038
Water	2,981,514	1,441,054
Rates and general	3,017,931	2,148,845
	13,910,269	**8,521,937**

9. Receivables from non-exchange transactions

	2018	2017
Traffic Fines Debtor	32,016,034	21,092,043
Sundry Debtors	332,012	119,414
Other Receivables	197,453	197,453
Consumer debtors - Rates	51,362,242	39,502,138
Traffic Fines Provision	(28,204,217)	(17,801,995)
	55,703,524	**43,109,053**

10. VAT receivable

	2018	2017
VAT	27,644,943	4,392,883

The vat receivable and vat payable balances were included within one account in the prior year.

11. Receivables from exchange transactions

	2018	2017
Gross balances		
Electricity	30,491,284	25,637,350
Water	27,400,425	21,184,220
Sewerage	26,012,554	22,000,331
Refuse	19,411,063	16,644,769
Agreement Installment	266,822	266,822
Sundry Debtors - Consumer Debtors	14,252,697	10,266,544
Sundry Debtors Exchange Transactions	1,525,855	4,033,799
	119,360,700	**100,033,835**

	2018	2017
Less: Allowance for impairment		
Electricity	(13,922,378)	(13,437,010)
Water	(19,652,892)	(17,360,887)
Sewerage	(19,559,951)	(17,567,059)
Refuse	(13,970,484)	(12,751,168)
Agreement instalment	(266,822)	(266,822)
VAT	(9,021,017)	-
	(76,393,544)	**(61,382,946)**

Figures in Rand	2018	2017

11. Receivables from exchange transactions (continued)

Net balance		
Electricity	16,568,906	12,200,340
Water	7,747,533	3,823,333
Sewerage	6,452,603	4,433,272
Refuse	5,440,579	3,893,601
Agreement Installment	266,822	266,822
Sundry Debtors - Consumer Debtors	14,252,697	10,266,544
Sundry Debtors Exchange Transactions	1,259,033	3,766,977
VAT	(9,021,017)	-
	42,967,156	**38,650,889**

Electricity		
Current (0 -30 days)	8,206,088	5,471,094
31 - 60 days	1,459,157	1,175,541
61 - 90 days	479,433	204,409
91 - 120 days	430,898	135,035
121 - 365 days	187,439	196,769
	10,763,015	**7,182,848**

Water		
Current (0 -30 days)	2,693,051	1,622,700
31 - 60 days	1,003,591	1,139,124
61 - 90 days	473,356	85,212
91 - 120 days	352,849	94,399
121 - 365 days	132,635	881,898
	4,655,482	**3,823,333**

Sewerage		
Current (0 -30 days)	1,658,988	1,434,017
31 - 60 days	834,354	775,324
61 - 90 days	352,475	302,013
91 - 120 days	311,196	269,455
121 - 365 days	188,968	1,652,464
	3,345,981	**4,433,273**

Refuse		
Current (0 -30 days)	634,609	591,650
31 - 60 days	251,079	450,493
61 - 90 days	199,025	177,725
91 - 120 days	193,357	187,526
121 - 365 days	25,901	2,486,208
	1,303,971	**3,893,602**

Sundry debtors		
Current (0 -30 days)	-	291,166
31 - 60 days	(340,417)	274,696
61 - 90 days	(239,464)	267,323
91 - 120 days	(44,047)	291,482
121 - 365 days	9,438,256	13,175,676
> 365 days	-	-
	8,814,328	**14,300,343**

Figures in Rand	2018	2017

11. Receivables from exchange transactions (continued)

VAT		
Current (0 -30 days)	2,049,842	-
31 - 60 days	588,207	-
61 - 90 days	241,674	-
91 - 120 days	188,795	-
121 - 365 days	9,970	-
> 365 days	-	-
	3,078,488	**-**

VAT is included within the service balances in the prior year.

In the determination of the amounts deemed to be impaired at financial year end, the municipal impairment policy was applied as follows:

The value of the provision is determined as follows:

0% of consumer debt greater than 0 days but less than or equal to 90 days

50% of consumer debt greater than 91 days but less than or equal to 120 days

50% of consumer debt greater than 121 days but less than or equal to 150 days

100% of consumer debt greater than 151 days

The calculation for impairment excludes property rates, rates penalties, rates collection charges, legal fees, and all Government debt

Long term receivables		
Land sales > 365 days	5,502,319	5,502,319

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	5,320	5,320
Bank balances	5,088,368	4,621,578
Short-term deposits	6,845,087	7,449,937
	11,938,775	**12,076,835**

	Bank Statement Balance		Cash Book Balance	
Account number/description	2018	2017	2018	2017
Absa Bank - Cheque Account - 100 500 1109	53,379	528,845	53,379	528,845
Nedbank - Current Account - 106 737 9770	4,917,120	4,079,906	5,034,989	4,092,733
Subtotal	4,970,499	4,608,751	5,088,368	4,621,578
Total	**4,970,499**	**4,608,751**	**5,088,368**	**4,621,578**

Short term deposits		
Absa 9195460586	868	3,103
Standard Bank 068461763-003	59,751	1,091,551
Standard Bank 068461763-005	4,125	107,490
Nedbank 037165020780	6,777,756	6,174,200
Absa 9122861337	2,588	73,593
	6,845,088	**7,449,937**

Figures in Rand	2018	2017

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
INEP	14,065,980	10,714,707
Gijima	38,830	38,830
Land use management	229,850	229,850
Provincial housing	60,000	60,000
Upgrade Billing Emondlo	3,166	3,166
Housing	225,383	225,383
Water massification	2,569	2,569
COGTA Thusong Operational	191,920	507,281
Library	3,561,064	2,462,900
	18,378,762	**14,244,686**

Refer to note 52

14. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Additions	Finance costs	Total
Environmental rehabilitation	23,058,965	3,315,996	766,744	27,141,705

Reconciliation of provisions - 2017

	Opening Balance	Additions	Reduction due to re-measurement or settlement without cost to entity	Total
Environmental rehabilitation	61,334,413	2,072,902	(40,348,350)	23,058,965

The determination of the cost required for the rehabilitation of the Vryheid, Enyathi, Coronation and Louwsburg landfill sites was done as at 30 June 2018.
The Cost estimate is based on 25% preliminary and general (P&G) and a 10% contingency of the construction amount for unforseen items.

Additions of 331596 can be traced to solid waste-landfill sites on note 4. Finance costs can be traced to note 29.

Vryheid	24,447,951	20,734,563
Louwsburg	251,500	251,500
Enyathi	1,261,535	1,261,535
Coronation	1,180,719	811,367
	27,141,705	**23,058,965**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

15. Payables from exchange transactions

Trade payables	90,089,487	81,807,745
Accruals	3,221,671	4,439,082
Hall deposits and refundable deposits	77,664	77,664
Retentions	7,293,449	9,166,714
Accrued leave pay	15,853,315	14,328,780
Unallocated Deposits	740,174	(265,645)
Land purchase (Refer to note 53)	5,831,808	-
	123,107,568	**109,554,340**

16. VAT payable

Tax refunds payables	25,415,391	-

The vat receivable and vat payable balances were included within one account in the prior year.

17. Consumer deposits

Electricity	11,984,005	12,550,072
Water	1,215,801	1,209,787
	13,199,806	**13,759,859**

18. Revenue

Service charges	253,245,640	215,044,398
Rental of facilities and equipment	1,463,324	979,858
Licences and permits	4,624,914	4,292,173
Fees earned	3,695,000	-
Other income	491,091	26,629
Landfill - decrease in provision	-	40,348,350
Interest received - investment	2,869,791	2,259,974
Property rates	70,448,181	61,916,699
Property rates - penalties imposed	3,286,106	3,233,236
Government grants & subsidies	170,819,831	157,641,843
Fines, Penalties and Forfeits	12,327,021	10,417,223
	523,270,899	**496,160,383**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	253,245,640	215,044,398
Rental of facilities and equipment	1,463,324	979,858
Licences and permits	4,624,914	4,292,173
Fees earned	3,695,000	-
Other income	491,091	26,629
Landfill - decrease in provision	-	40,348,350
Interest received - investment	2,869,791	2,259,974
	266,389,760	**262,951,382**

Figures in Rand	2018	2017

18. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:

Property rates	70,448,181	61,916,699
Property rates - penalties imposed	3,286,106	3,233,236
Transfer revenue		
Government grants & subsidies	170,819,831	157,641,843
Fines, Penalties and Forfeits	12,327,021	10,417,223
	256,881,139	**233,209,001**

19. Service charges

Sale of electricity	186,291,429	159,920,128
Sale of water	32,785,468	16,093,736
Solid waste	14,903,717	-
Sewerage and sanitation charges	18,671,384	22,061,362
Refuse removal	-	18,863,457
Other service charges	593,642	(1,894,285)
	253,245,640	**215,044,398**

20. Fines, Penalties and Forfeits

Traffic fines	12,319,100	9,561,080
Library fines	7,921	11,732
Forfeits - retentions	-	844,411
	12,327,021	**10,417,223**

21. Other income

IEC Election income	-	26,629
Tender income	206,464	-
Consumables	44,150	-
Sporting facilities	1,996	-
Commission income	238,481	-
	491,091	**26,629**

22. Investment revenue

Interest revenue		
Short Term Investment - Interest	2,869,791	2,259,974
	-	-
	2,869,791	2,259,974

Figures in Rand	2018	2017

23. Property rates

Rates received

Property Rates	70,448,181	61,916,699
	70,448,181	61,916,699
Property rates - penalties imposed	3,286,106	3,233,236
	73,734,287	**65,149,935**

Valuations

Residential (R0.0075422)	3,268,775,005	3,268,775,005
Commercial (R0.0188556)	1,083,985,031	1,083,985,031
State Owned (R0.0188556)	858,519,124	858,519,124
Place of Worship (R0.00)	103,885,000	103,885,000
Vacant Land (R0.0188556)	147,335,000	147,335,000
Public Service Infrastructure (R0.00)	14,790,100	14,790,100
SPL (R0.0018857)	82,647,001	82,647,001
Agriculture (R0.0018857)	2,315,069,201	2,315,069,201
Industrial (R0.0188556)	14,860,000	14,860,000
Municipal (R0.00)	33,225,600	33,225,600
	7,923,091,062	**7,923,091,062**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2013. However the MEC has allowed the Municipality an extension for the current year. Valuations will therefore be performed in the 2018/2019 financial year. Interim valuations are processed on a monthly basis to take into account changes in individual property values due to alterations and subdivisions.

Rate are levied on a monthly basis with a final date for payment being the 09th of every month. Interest plus prime at 1% per annum is levied on outstanding rates

Rates on indigent, pensioners and person with disability grants and child headed households amount to: R 459.89 per annum

Rates will be due and payable in 12 equal or near installments on the 09 of each month, when the 09th is a public holiday or weekend the first day thereafter. The dates on which the determination of rates came into operation is 01 July 2015. Any rates not paid on the due dates will be subject to interest at the rate prime plus 1%. This notice is available on the municipalities website.

Figures in Rand	2018	2017

24. Government grants and subsidies

Operating grants		
Equitable share	117,256,852	106,890,000
EPWP Grant	1,505,000	1,480,587
Finance Management Grant (FMG)	1,700,026	1,625,000
DoE INEP	11,648,727	10,195,975
Cecil Emett Sports Grant	-	2,100,000
COGTA Ward 5 electrification	-	2,214,580
Scheme Support	-	90,000
Library	2,953,836	2,294,362
Cyber Cadet	-	179,000
Museum	-	175,000
COGTA Thusong Operational	315,361	242,719
	135,379,802	**127,487,223**

Capital grants		
MIG	35,440,029	30,154,620
	135,379,802	127,487,223
	35,440,029	30,154,620
	170,819,831	**157,641,843**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

This grant is unconditional that supplements the revenue that municiplaities can raise themselves.

Equitable Share

Current-year receipts	117,256,852	106,890,000
Conditions met - transferred to revenue	(117,256,852)	(106,890,000)
	-	-

DOE Grant

Balance unspent at beginning of year	10,714,707	910,682
Current-year receipts	15,000,000	20,000,000
Conditions met - transferred to revenue	(11,648,727)	(10,195,975)
	14,065,980	**10,714,707**

Gijima

Balance unspent	38,830	38,830

Land use management

Balance unspent	229,850	229,850

Provincial Housing Grant

Balance unspent	60,000	60,000

MIG

Balance unspent at beginning of year	-	76,620

Figures in Rand	2018	2017

24. Government grants and subsidies (continued)

Current-year receipts	35,440,029	30,078,000
Conditions met - transferred to revenue	(35,440,029)	(30,154,620)
	-	-

FMG

Current-year receipts	1,700,000	1,625,000
Conditions met - transferred to revenue	(1,700,000)	(1,625,000)
	-	-

Upgrade Billing Emondlo

Balance unspent	3,166	3,166

Housing Grant

Balance unspent	225,383	225,383

Emergency Repair Grant (COGTA) - water masification

Balance unspent	2,569	2,569

Library Grant

Balance unspent at beginning of year	2,462,900	1,251,262
Current-year receipts	4,052,000	3,506,000
Conditions met - transferred to revenue	(2,953,836)	(2,294,362)
	3,561,064	**2,462,900**

Museum Grant

Current-year receipts	-	175,000
Conditions met - transferred to revenue	-	(175,000)
	-	-

EPWP Grant

Balance unspent at beginning of year	-	82,587
Current-year receipts	1,505,000	1,398,000
Conditions met - transferred to revenue	(1,505,000)	(1,480,587)
	-	-

Scheme Support Grant

Balance unspent	-	90,000
Conditions met - transferred to revenue	-	(90,000)
	-	-

Cecil Emmet Sports Facilities

Balance unspent	-	2,100,000
Conditions met - transferred to revenue	-	(2,100,000)
	-	-

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

24. Government grants and subsidies (continued)

COGTA Ward 5 Electrification

Balance unspent	-	2,214,580
Conditions met - transferred to revenue	-	(2,214,580)
	-	-

COGTA Thusong Centre Operational

Balance unspent at the beginning of the year	507,281	750,000
Conditions met - transferred to revenue	(315,361)	(242,719)
	191,920	**507,281**

Cyber Cadet

Balance unspent	-	179,000
Conditions met - transferred to revenue	-	(179,000)
	-	-

Figures in Rand	2018	2017

25. Employee related costs

Bargaining council	16,480,124	14,521,737
Basic	102,875,703	88,066,773
Bonus	5,806,694	4,892,607
Car allowance	-	1,630,594
Housing benefits and allowances	794,935	426,851
Leave pay provision charge	1,524,535	2,229,397
Long-service awards	161,367	-
Medical aid - company contributions	7,672,381	6,273,516
Other	2,375,368	3,234,864
Overtime payments	17,450,171	15,931,737
UIF	714,390	704,455
	155,855,668	**137,912,531**

Remuneration of Municipal Manager

Annual Remuneration	1,034,298	-
Backpay salary	37,915	-
Cellphone allowance	30,000	-
Subsistence and travel	67,076	-
	1,169,289	**-**

For the June 2017 annual financial year, the municipality functioned without a municipal manager. Director of town planning acted as Municipal Manager for the 2016/2017 finanaicl period.

Remuneration of chief finance officer

Annual Remuneration	980,888	1,093,436
Cellphone allowance	30,000	30,000
Subsistence and Travel	54,086	51,293
Backpay	8,213	-
	1,073,187	**1,174,729**

Remuneration of director Technical

Annual Remuneration	434,169	820,077
Car Allowance	-	22,500
Performance Bonuses	-	53,644
Cellphone allowance	15,000	-
Subsistence and Travel	24,251	-
Backpay	8,216	-
	481,636	**896,221**

Remuneration of director Corporate

Annual Remuneration	434,169	273,359
Car Allowance	-	7,500
Cellphone allowance	15,000	-
Backpay	8,216	-
Subsistence and Travel	5,354	-
	462,739	**280,859**

Figures in Rand	2018	2017

25. Employee related costs (continued)

Remuneration director Community

Annual Remuneration	664,771	728,958
Car Allowance	-	22,050
Back pay salary	27,654	-
Contributions to UIF, Medical and Pension Funds	-	54,380
Cellphone allowance	22,500	-
Subsistence and Travel	20,738	-
Other	500	-
	736,163	**805,388**

Remuneration director planning and development - Mr JS Landman

Annual Remuneration	110,596	600,453
Housing allowance	-	219,624
Cellphone allowance	5,000	32,159
Travel allowance	36,865	273,359
Subsistence	-	21,684
Other	-	33,613
	152,461	**1,180,892**

Mr JS Landman was employed in May 2018

Remuneration director planning and development - Mr HD Zulu

Annual Remuneration	150,133	-
Housing allowance	54,906	-
Cellphone allowance	8,295	-
Leave	132,101	-
Subsistence	68,340	-
Acting allowance (Municipal Manager)	11,771	-
	425,546	-

Mr HD Zulu was employed from July 2017 to September 2017.

Figures in Rand	2018	2017

26. Remuneration of Councillors

Mayor	832,270	760,099
Deputy Mayor	700,074	535,344
Executive committee members	3,720,602	3,584,397
Speaker	705,960	652,256
Councillors	9,195,922	9,525,909
Councillors travel allowance	178,646	155,045
Councillors cell allowance	994,700	931,548
	16,328,174	**16,144,598**

The Mayor, Deputy Mayor, Speaker and Executive Committee Members are full-time employees. The Mayor, Deputy Mayor and Speaker are each provided with an office and secretarial support at the cost of the Municipality. The Executive Committee members are provided with an office only.

The Mayor, Deputy Mayor and the Speaker each has a full time bodyguard and a driver.

Mayor		
Salary	779,867	719,781
Housing allowance	-	37,106
Cellphone allowance	32,800	24,481
Other	11,600	-
	824,267	**781,368**

Deputy Mayor		
Salary	624,675	496,509
Subsistence allowance	25,310	35,622
Cellphone allowance	32,041	24,314
Other	11,600	-
	693,626	**556,445**

Speaker		
Salary	629,647	613,421
Subsistence allowance	12,706	35,622
Cellphone allowance	32,800	24,481
Other'	11,600	-
	686,753	**673,524**

Other Councillors		
Salary	12,570,734	10,990,680
Housing allowance	72,000	643,419
Cellphone allowance	1,189,100	2,096,167
Subsistence and Travel	10,280	208,957
Medical aid	69,120	92,904
	13,911,234	**14,032,127**

27. Depreciation, amortisation and impairment

Depreciation	66,906,038	59,951,739
Amortisation	296,125	191,183
Impairment	7,231,495	2,518,223
	74,433,658	**62,661,145**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

28. Finance costs - general

Land purchase (Refer to note 52)	18,665,207	-
Interest on investment	2,235	-
Landfill sites	766,744	-
Overdue accounts	-	22,682
	19,434,186	**22,682**

29. Repairs and maintenance

Buildings, facilities and other assets	5,620,987	9,622,044

30. Bulk purchases

Electricity	114,329,479	149,608,870

31. Contracted Services

Ado Research Lab	306,267	318,807
Annual Report	-	51,000
Brandfin Trade CC	-	34,038
Burial services	476,850	-
Call Centre	-	1,312,249
Catering services	643,394	-
Computer Services	-	1,734,732
Contour	-	534,060
Electrical costs	71,090	-
Event promoters	2,450	-
Fire Protection	-	9,950
Legal costs	51,725	-
License Cards	-	110,633
Maintenance of assets	12,131,485	-
Meter Reading	2,663,365	1,941,183
Other Financial Services	11,065,606	4,357,161
Parks	-	6,321,496
Planning and Development	1,856,850	1,054,260
Refuse Removal	9,671,500	11,042,557
Security	8,763,223	12,376,476
Steiner	-	4,490
Total Client Services	-	74,813
Valuers and Assessors	282,531	336,011
	47,986,336	**41,613,916**

32. Hire of vehicle and equipment

Equipment	247,476	5,981,264
Vehicles	17,155,638	10,530,477
	17,403,114	**16,511,741**

Figures in Rand	2018	2017

33. General expenses

Advertising	1,069,475	1,758,166
Allowance and contributions pensioners	-	1,712,153
Auditors remuneration	2,288,268	5,638,094
Bank charges	1,251,487	870,515
Commission on vendor sales	1,872,466	1,289,417
Consumables	10,682,735	21,823,927
Delivery expenses	86,672	-
Entertainment	-	110,107
Fuel and oil	2,319,181	-
Government grants and subsidies	16,919,365	15,385,273
Grant in Aid	-	447,392
Indigent burials	-	(96,797)
Insurance	1,691,478	3,907,026
Legal expenses	3,357,438	5,569,967
Other expenses	1,343,492	16,632,793
Postage and courier	828,639	756,261
Printing and stationery	11,613	11,518
Protective clothing	64,680	957,225
Subscriptions and membership fees	2,844,530	432,927
Telephone and fax	1,509,669	1,470,318
Title deed search fees	5,374	-
Training	218,268	122,469
Travel - local	497,183	2,291,709
Utilities - Other	6,928,187	6,166,074
	55,790,200	**87,256,534**

34. Loss on disposal of assets and liabilities

Property, plant and equipment	(124,684)	(3,081,730)

35. Auditors' remuneration

Fees	2,288,268	5,638,094

36. Cash generated from operations

Deficit	(9,466,907)	(64,529,361)
Adjustments for:		
Depreciation and amortisation	74,433,658	62,661,145
Loss on sale of assets and liabilities	124,684	3,081,730
Penalties	(3,159,770)	(3,233,236)
Finance costs	6,598,552	390,529
Debt impairment	25,412,820	17,700,246
Movements in retirement benefit assets and liabilities	(3,695,000)	5,151,000
Movements in provisions	-	(40,348,350)
Traffic	(10,908,861)	(1,603,776)
Interest income	(2,869,791)	(2,259,974)
Leave pay provision	1,524,535	-
Changes in working capital:		
Inventories	(5,388,332)	1,971,261
Receivables from exchange transactions	(4,316,267)	(10,940,683)
Other receivables from non-exchange transactions	(12,594,471)	5,295,341
Payables from exchange transactions	(2,300,086)	39,908,273
VAT	2,163,331	5,290,953
Unspent conditional grants and receipts	4,134,076	6,208,804
Consumer deposits	(560,053)	167,512
	59,132,118	**24,911,414**

Figures in Rand	2018	2017

37. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	85,406,443	52,329,124
Total capital commitments		
Already contracted for but not provided for	85,406,443	52,329,124

Project	**Commitment**
Abaqulusi Rural Roads Project (AFA) MIS 225723	755,596
Khokhoba Gravel Road	510,421
Vryheid Extension 16 Infrastructure	10,574,707
Abaqulusi Low Cost Housing: Stormwater Control Measures	14,141
Cecil Emmert Sport Complex	285,215
Lakeside and Bhekuzulu Township Roads	17,670,760
Emadoshini Paved Road	2,200,239
Abaqulusi Rural Roads Project Phase 2	44,361,807
Ezingadini Gravel Road	419,188
Ngilandi Gravel Road	448,812
Mkhumbane Gravel Road	236,359
Zwelisha Gravel Road	131,380
Jimani Gravel Road	25,242
Jimani Cause ways	425,423
Bhozimini Gravel Road	2,685,627
Ezibomvu Community Hall	1,811,989
Mgengenduku Creche	215,106
Vryheid Landfill Fencing	603,729
The Rehabilitation of Bhekuzulu Hall	412,350
Ward 20 Creche	380,061
Ward 19 Creche	162,586
Emadresini Creche Ward 16	146,617
Emadresini Cemetry Fencing Ward 16	929,088
	85,406,443
	85,406,443

Figures in Rand	2018	2017

38. Contingencies

Legal letters were sent to the Municipalities attorneys in order to obtain details of potential claims against the municipality. Responses were received back from Garlicke and Bousfield. The details of the claimant and an estimation of the potential claim is detailed below. As at the end of the financial year the municipality had the following litigation matters outstanding:

Contingencies		
African Oxygen Limited	8,000	8,000
Claveshay Estates CC	1,331,808	25,155,000
Martin and Mathinius Pretorius	400,000	400,000
Martin and Matinius Pretorius	100,000	100,000
51 Employees	50,000	50,000
Appeals Board	150,000	150,000
Eric Maphiri	50,000	50,000
Mrs Martha Laas	200,000	200,000
Johannes C. Van der Colf	80,000	80,000
Afriforum	25,000	25,000
Noord Vrystaat Graan & vee	100,000	100,000
Itrmas	500,000	500,000
Nashay Singh	550,000	550,000
Tender documents relating to reading of meters	37,747	37,747
JD Hoffman (legal fees and damage)	145,301	145,301
Metgovis (Pty) Ltd (Legal fees and damage)	105,873	105,873
SA Local authourities and pension fund (legal fees and damage)	431,980	431,980
Dumani Projects (Pty) Ltd (legal fees and damage)	342,545	342,545
High court case number 3265/2009 Edcon Ltd and Wrley and Parsons RSA (legal fees and damage)	6,157,101	6,157,101
TZ 98 illegal occupation of ERF 561	56,558	56,558
T423 Non-responsive client	5,154	5,154
Petroleum (Pty) Ltd	-	3,000
FJ Bender	71,917	71,917
MP Mdletshe	13,260	13,260
Hofman	193,795	193,795
Dumani Projects	282,544	282,544
Metgovis	64,772	64,772
Edcon	6,169,591	6,169,591
Graceland Investments	48,720	48,720
MI Sangweni	137,388	137,388
IFP & Mthembu	100,000	100,000
MEC/VJ Mthemnbu & Abaqulusi	20,000	20,000
Sharp Business/Sharks Prof.	3,000,000	3,000,000
Farm Welgevonden (Shoba)	50,000	50,000
Traffic officer - MN Buthelezi	-	20,000
Chickerone CC	-	30,000
Sharp Business Service	2,000,000	2,000,000
Ngwenya and Zwane Inc	121,872	-
	23,100,926	**46,855,246**

Figures in Rand	2018	2017

39. Related parties

During the current financial year the following related party transactions were identified:

Lithotech was in service of the state (Ethekwini Municipality) as declared on the MD4 dated 9 September 2014.

The managing director of Qomkufa was in service of the state as a traffic officer at Endumeni Municipality as per the MD4 declaration dated 7 September 2016, subsequent to the current financial year the director had resigned prior to the award of the new security tender.

Samkelintokozo - wife employed by state MBD dated 29/11/2017.

Gess Trading - wife licence clerk at Abaqulusi Local Municipality MBD dated 23/12/2016.

LITHOTEC SALES KWAZULU NATAL	52,440	101,688
QOMKUFA TRADING T/A QOMFUKA SE	-	1,905,832
CONLOG (PTY) LTD	1,434,666	580,078
SAMKELINTOKOZO	108,000	-
GESS TRADING	138,985	-
	1,734,091	**2,587,598**

In addition refer to note on irregular expenditure

40. Prior period errors

The aggregate effect of the prior year adjustments in the annual financial statements for the period ended 30 June 2017 is as follows:

During the financial year 2017/2018 the following prior period errors were identified and corrected. These corrections were made to correctly reflect the comparative figures for the 2016/2017 financial year.

The table below outlines the reasons for the necessary adjustments:

Figures in Rand	2018	2017

40. Prior period errors (continued)

Trade payables	**2017**
Balance as previously reported	83,854,835
Credit note passed	(2,047,092)
Restated balance as at 30 June 2017	**81,807,743**

Property plant and equipment - Buildings	**2017**
Balance as previously reported	79,928,332
Adjustment to cost relating to 2016	(3,747,013)
Adjustment to accumulated depreciation	145,221
Restated balance as at 30 June 2017	**76,326,540**

Property plant and equipment - Other assets	**2017**
Balance as previously reported	7,360,669
Adjustment to cost relating to 2016	(1,043,968)
Adjustment to accumulated depreciation	174,482
Restated balance as at 30 June 2017	**6,491,183**

Property plant and Equipment - Community assets	**2017**
Balance as perviously reported	126,958,302
Adjustment to cost relating to 2016	(4,340,162)
Accumulated depreciation	201,514
Adjustment to additions	388,519
Transfer to AUC Buildings	(10,433,901)
Restated balance as at 30 June 2017	**112,774,272**

Property plant and equipment - AUC buildings	**Column heading**
Balance as previously reported - Nil	
Restated cost 2017	6,006,638
Restated additions 2017	4,427,263
Restated balance as at 30 June 2017	**10,433,901**

Property plant and equipment - Other infrastructure	**2017**
Balance as previously reported	1,247,825,841
Adjustment to cost relating to 2016	(27,948,351)
Adjustment to accumulated depreciation	827,850
Adjustment to additions	1,894,250
Transfers	(65,191,911)
Restated balance as at 30 June 2017	**1,157,407,679**

Property plant and equipment - AUC Roads and Stormwater	**2017**
Balance as previously reported - Nil	
Restatement of cost	56,049,389
Restatement of additions	17,249,130
Transfers	(17,857,614)
Restated balance as at 30 June 2017	**55,440,905**

Figures in Rand	2018	2017

40. Prior period errors (continued)

Property plant and equipment - AUC Solid waste

	2017
Balance as previously reported - Nil	
Restated 2017 additions (Restated balance)	3,741,280

Property plant and equipment - AUC Electricity

	2017
Balance as previously reported - Nil	
Restated cost 2016	3,225,323
Restated 2017 additions	2,784,404
Restated balance as at 30 June 2017	**6,009,727**

Cash and cash equivalents

	Column heading
Balance as previously reported	11,708,975
Adjustment for interest - Absa	(4,171)
Adjustment for interest - Nedbank	372,031
	12,076,835

Restated Profit and Loss	**2017**
Loss as previously reported	(68,293,392)
Eskom credit notes - prior period journal	2,047,103
Understatement of 2017 profit and loss on Munsoft compared to audited AFS	4,331
Prior year interest - Absa	(2,065)
Prior year interest - Absa	2,433
Prior year interest - Absa	(4,539)
Prior year interest - Nedbank	372,031
Correction of accumulated depreciation on other assets	(4,324)
Restatement of depreciation of other assets, community assets and other infrastructure	1,156,247
Restatement of depreciation other infrastructure	18,339
Restatement of depreciation of other assets	174,482
Restated balance as at 30 June 2017	**(64,529,354)**

Accumulated Surplus	**2017**
Opening balance as previously reported	1,570,050,045
Adjustment to Property, plant and equipment cost 2016	(36,035,526)
Adjustment to Property, plant and equipment cost 2016	(5,117,589)
Adjustment to Property, plant and equipment cost 2016	(1,043,968)
Adjustment to Property, plant and equipment cost 2016	7,400,356
Profit and loss 2017	(64,529,361)
Restated balance as at 01 July 2017	**1,470,723,957**

41. Going concern

The following financial ratios were considered:

Asset Test Ratio

Financial Year	Current Assets	Current Liabilities	Acid Test Ratio
2016/2017	98,229,660	137,558,885	0.71
2017/2018	138,254,398	180,101,528	0.77

The asset test ratio is calculated as a municipality's current assets minus inventory divided by current liabilities. The accepted acid test ratio is considered to be 1:1, which indicates that the entity is able to meet its current credit obligations without disposing of its inventory.

Current Asset Ratio

Financial Year	Current Assets	Current Liabilities	Current Asset Ratio
2016/2017	106,751,597	137,558,885	0.78
2017/2018	152,164,667	180101,528	0.84

The current ratio (also known as the working capital ratio) is calculated as current assets divided by current liabilities. This ratio measures the extent to which current or short-term assets can be disposed to liquidate the current or short-term liabilities. The acceptable ratio is 1:1.

Debt Ratio

Financial Year	Total Liabilities	Total Assets	Debt Ratio
2016/2017	235,047,850	1,705,771,808	14%
2017/2018	277,978,233	1,739,235,288	16%

The debt ratio is the proportion of debt the entity has relative to its assets and provides an indication as to how much the municipality relies on debt to finance their assets. This ratio assists entities to assess risks they are facing in terms of their debt load.

Approximately 14% of municipal assets were financed through debt in the 2016/2017 financial year, and approximately 16% in the 2017/2018 financial year.

The proportion of debt to asset is quiet low and in a favourable position.

Figures in Rand	2018	2017

41. Going concern (continued)

The below the norm ratio of 1:1 can be justified for the current year based on the fact that the municipality did not anticipate their bank accounts to be attached in the current financial year, resulting from a long standing court battle with Claveshay Estates over the compensation on land which was expropriated. The settlement of agreement in the KZN High Court on Case number 8935 relating to Claveshay indicated that the defendant (the municipality) will pay interest on the sum of R25,100,000 as from 12 June 2006 at a rate of 15.5% until the date of payment. Based on the amounts that were attached by the Sheriffs office to pay over to Claveshay and the interest cost calculation, an amount of R37, 933, 399 were deducted from municipalities bank account. A further R5,831,808 year end creditor was raised for the balance of interest owing after year end to Claveshay.

If the above had not been the case, the acid test and current ratio would have been in line with the norm of 1:1. Refer to revised calculations below.

Financial Year	Current Assets	Current Liabilities	Acid Test Ratio
2017/2018	176,162,566	174,269,720	1.01

Financial Year	Current Assets	Current Liabilities	Current Asset Ratio
2017/2018	190,098,066	180,101,528	1.06

The matter with Claveshay has been an extra-ordinary transaction and is not expected to impact the 2018/19 financial year.

In addition, since the prior year, the operating deficit has decreased from R64,529,361 to R9,466,908, resulting in a R55,062,453 improvement.

If the reported net deficit is revised for non- cash items and the extra-ordinary Claveshay court judgement, we get a resultant profit in both financial years. Refer to extract below.

Statement of financial performance

	2018	2017
Net deficit as reported	(9,466,908)	(64,529,361)
Depreciation and amortization	74,433,659	62,661,145
Provision for doubtful debts	25,412,820	17,700,246
Fair value loss	18,500	13,402,708
Post employment benefits	-	5,150,000
Provision for finance costs on landfill site	766,744	-
Finance costs Claveshay	18,665,207	-
	109,830,022	**34,384,738**

Based on the above revised ratios and extract of the revised Profit/ Loss, there is no indication that the Municipality may not meet its obligations as they become due in the short term. In addition, there is no indication of material uncertainties or events that cast doubt on the municipality's ability to continue as a going concern.

The annual financial statements will be prepared on the basis of accounting policies applicable to a going concern.

The going concern principle is the assumption that an entity will remain in operation for the foreseeable future. Conversely, this means the entity will not be forced to halt operations and liquidate its assets in the near term.

The municipality is assumed to be a going concern in the absence of significant information to the contrary. An example of such contrary information is the municipality's inability to meet its obligations as they come due.

Figures in Rand	2018	2017

41. Going concern (continued)

Going forward, in addition to the continued receipt of grant funding from National Treasury for operations in the form of Equitable Share, management intends enforcing more stringent controls around debt collection, awarding of contracts and spending in accordance with the municipal budget. The municipality has begun a process of curbing all un-necessary expenditure with a key focus on cost containment.

In addition, the councillors have reviewed the entity's cash flow forecast for the year ended 30 June 2019 and, in light of this review and the current financial position, they are satisfied that the entity has or has access to adequate resources to continue in operational existence for the foreseeable future.

CONCLUSION: Management is of the opinion that there is no risk that the municipality will not be operational in foreseeable future and thus the going concern basis is an accurate basis for the preparation of the AFS for 2018.

Acid Test Ratio	**Current Assets**	**Current Liabilities**	**Acid Test Ratio**
2017/2018	138,254,398	180,101,528	0.77

The acid test ratio is calculated as a municipality's current assets minus inventory divided by current liabilities. The accepted acid test ratio is considered to be 1:1, which indicates that the entity is able to meet its current credit obligations without disposing of its inventory.

Current Asset Ratio	**Current Assets**	**Current Liabilities**	**Current Asset Ratio**
2017/2018	152,164,667	180,101,528	0.84

The current ratio (also called the working capital ratio) is calculated as current assets divided by current liabilities. This ratio measures the extent to which current or short-term assets can be disposed to liquidate the current or short-term liabilities. The acceptable ratio is 1:1. The Municipality demonstrates postive current asset ratios.

Debt Ratio	**Total Liabilities**	**Total Assets**	**Debt Ratio**
2017/2018	277,978,233	1,739,235,288	16%

The debt ratio is the proportion of debt the entity has relative to its assets and provides an indication as to how much municipalities rely on debt to finance their assets. This ratio assists entities to assess risks they are facing in terms of their debt load.

Based on the above, there is no indication that the Municipality may not meet its obligations as they become due in the short term. In addition, there is no indication of material uncertainties or events that cast doubt on the Municipalities ability to continue as a going concern.

42. Events after the reporting date

There were no adjusting or non-adjusting events after the reporting period.

43. Unauthorised expenditure

	2018	2017
Opening balance	125,481,301	98,735,435
Personnel	-	764,506
Post employee benefits	-	2,151,000
Provision for doubtful debts	-	11,200,246
Bulk purchases	-	3,855,973
Contracted services	-	165,916
Grant expenditure	-	7,714,665
General expenses	-	893,560
	125,481,301	**125,481,301**

Figures in Rand	2018	2017

43. Unauthorised expenditure (continued)

The municipality has not incurred any unauthourised expenditure in current year resulting from overspend on the financial budget (Refer to Statement of comparisons from budget to actual). The total final budget has not been exceeded.

44. Fruitless and wasteful expenditure

Opening balance	820,456	809,430
Interest relating to land purchase(Refer to note 52)	18,665,207	-
Eskom interest	10,276	11,026
Telkom interest	9,048	-
	19,504,987	**820,456**

The total fruitless and wateful expenditure will be investigated and a report will be tabled to Council and National Treasury for approval.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

45. Irregular expenditure

Opening balance	117,524,674	48,341,734
Ado Research Labs (Pty) Ltd	378,325	376,306
Altech Netstar	29,948	88,156
Aqua Transport and Plant Hire	-	9,345,683
Bidvest Steigner	11,266	-
Bigen Africa Services	-	1,044,606
Brandfin Trade	-	103,476
Business connexion	-	3,511
Centrafin (Pty) Ltd	5,626	132,935
Chris Vermaak	264,882	424,414
Contour Technology	331,858	655,061
DOE Grant	-	10,714,707
Daisy communications	92,722	-
Dela soul trading	-	12,500
Dolphin Coast Waste Managment	-	6,932,768
Fana Manufacturing	-	175,000
Gess Trading	-	29,925
Human Communications	-	451,141
IBFS Trading Services	-	58,805
Inside Data	-	273,366
Isando	-	58,004
KD Electrical	140,197	283,046
KD Electrical - false declaration	-	57,593
Konica Minolta	-	198,450
Kuntwela Enzansi Ventures CC	-	878,741
Lasercom	157,804	492,335
Link Up Security	740,597	500,256
Louwsburg Tar Road	-	194,268
MWEB Connect (Pty) Ltd	86,036	99,586
Marsh	-	5,772,008
Muncomp systems	-	80,715
Municipal Incopr	1,267,882	1,837,920
Nashua Maluti	-	176,266
Nkonzi Trading	-	8,840
Nomthembe trading and projects	-	283,488
Ntshingas construction and projects	-	23,536
OTIS (Pty) Ltd	11,741	42,664
Ossies Tyres	-	199,195
Quantum Leap	-	5,844,353
RIS Vehicle Hire	4,173,250	6,463,495
Reochem (Pty) Ltd	486,058	1,476,826
Samakelintokozo	-	67,150
Samakelintokozo false declaration	-	56,795
Sengkhona Trading	-	28,500
Shalom Security	-	59,568
Sharp Business	-	667,908
Steiner Hygiene Express	93,776	111,187
Thembaleth Civils	-	1,682,811
Time Freight	89,838	115,771
Total Client Service	49,792	99,647
Wesbank Fleet Services	4,144,310	7,134,454
Windeed Systems	3,354	35,303
Zamaduze Trading	-	493,480
Zamakumalo Projects	-	2,624,612
Zululand Funerals CC	-	118,200
Zwiwe trading	-	93,609
Procurement from individuals who are in service of the state (refer to note 40)	1,734,091	-
	131,818,027	**117,524,674**

Figures in Rand	2018	2017

45. Irregular expenditure (continued)

The expenditure was investigated and a report will be tabled to council.

46. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the board of members and includes a note to the annual financial statements.

Buses and gym equipment were procured during the 2017 financial year and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the board of members who considered them and subsequently approved the deviation from the normal supply chain management regulations.

The current deviations related to various expenditure due to emergencies, being impossible to follow to procurement process and there being only one sole supplier

	2018	2017
Supply Chain Management Deviations more than R 200 000		
Actom Electrical Products	-	243,960
Kantech Services (Pty) Ltd	548,351	-
	548,351	**243,960**

	2018	2017
Supply Chain Management Deviations less than R 200 000		
Various deviations less than R 200 000	2,510,262	2,103,849

47. Distribution Losses

The actual loss in distribution water cannot be determined in view of the fact that eMondlo consumers are not billed. The difference between water purified and sold can therefore not be regarded as lost in distribution, seeing that a large percentage of it is not metered.

	2018	2017
Electricity		
Number of consumers (Residential & Commercial)	24,714	20,880
Units purchased	151,582,918	151,527,367
Units sold (total)	118,775,566	109,400,781
Units lost in distribution	32,807,352	42,126,586
% lost in distribution	22	28
Total costs (expenses)	146,378,959	245,958,862
Cost per unit purchased	1	2
Total cost lost through distribution	31,681,050	68,379,774
	-	-

	2018	2017
Water		
Number of consumers	19,512	14,758
Kilolitres purified	7,645,398	3,387,500
Kilolitres sold (total)	2,542,748	974,141
Kilolitres lost in distribution	5,102,650	2,413,359
% lost in distribution	67	71
Total cost (expense) - calculated on weighted average	29,804,722	4,027,843
Cost per kilolitre purified	4	1
Total cost lost through distribution	19,892,105	2,869,559
	-	-

Figures in Rand	2018	2017

48. Water Inventory

Water Inventory - 2018

	Rand Value of Inventory 2018
Opening Balance	24,259
Purified	9,515,000
Less sold	(2,954,486)
Less loss through purification 10%	(951,500)
Less sold to indigent	(144,644)
Loss through distribution	(5,405,661)
Closing Balance	**82,968**

Water Inventory - 2017

	Rand Value of Inventory 2017
Opening Balance	26,489
Purified	4,027,843
Less sold	(1,158,284)
Less loss through purification 10%	(402,784)
Less sold to indigent	(10,371)
Loss through distribution	(2,458,634)
	24,259

49. Risk Mangement

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate, utilised borrowing facilities are monitored. The liquidity ratio is outlined below:

Financial Instruments		
Current Assets	152,164,667	106,572,180
Current Liabilities	277,978,233	140,290,060
	-	-
Liquidity Ratio	0.54	1.27

Interest Rate Risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

At 30 June 2018, financial instruments exposed to interest rate risk were call and notice deposits.

Credit Risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing basis in terms of council policy. Sales to consumer customers are settled in cash. The Municipalities exposure to credit risk is indicated below.

Figures in Rand	2018	2017

49. Risk Mangement (continued)

Cash and cash equivalents	11,938,775	11,708,975
Receivables from non exchange transactions	55,703,524	42,528,826
Receivables from exchange transactions	48,469,475	39,419,559
	-	-

50. Additional Note in terms of the Municipal Finance Management Act

PAYE and UIF

Current year payroll deductions	23,372,988	23,240,406
Amount paid current year	(23,372,988)	(23,240,406)
	-	-

51. Reasons for differences identified in the Statement of Comparison of Budget and Actual

51.1 Other Income was not budgeted for, however the increase year on year can be largely attributed to the sale of tender documents as well as commission on transaction handling fees.

51.2. This line item relates to Licences and permits relating to road drivers and motor vehicle licences. This line item was budgeted under revenue from exchange and revenue from non-exchange transactions. The total budget is therefore R2,000,000+ R2,530,000= R4,530,000 in the current year. The revised variance is therefore only 2% (R4,624,914-2,530,000)/R4,624,914).

51.3.The actual amount comprises interest earned on investments. The actual amount is lower than the budgeted amount due to approximately R53m deducted out of the account following a court order in favour of Claveshay.

51.4. Although budgeted for, there was no sale of goods or rendering of services in the current year.

51.5. Post employment benefits is usually a year end adjustment. An amount was not budgeted for this movement in oversight.

51.6. Increase in the rental machinery and equipment.

51. 7. Increase in MIG & Equitable share.

51. 8. This line item relates to Licences and permits relating to road drivers and motor vehicle licences. This line item was budgeted under revenue from exchange and revenue from non-exchange transactions. The total budget is therefore R2,000,000+ R2,530,000= R4,530,000 in the current year. The revised variance is therefore only 2% (R4,624,914-2,530,000)/R4,624,914).

51. 9. Interest has been budgeted for under revenue from exchange and revenue from non exchange transactions. The actual amount comprises interest earned on investments. The actual amount is lower than the budgeted amount due to approximately R53m deducted out of the account following a court order in favour of Claveshay.

51. 10. Traffic fines are accounted for the accrual basis of accounting. The amount for traffic fines has been budgeted for on the actual amount anticipated to be received for traffic fines as opposed to the actual amount that would be accrued for the year. Therefore the traffic fine revenue has been under budgeted for.

51. 11. It was anticipated that the municipality would incur finance costs on bank overdrafts, however cashflow was managed in an effective manner so as to ensure that interest expense was not incurred

51. 12. The bad debts write off and provision for bad debts(refer to the line above) should have been budgeted for under one line item as the actual amount reports these 2 line items together. The total bad debts budget is R6,903,000. The total contribution to provision for doubtful debts budget is R16,449,500. This equates to a total budget of R23,352,500. The revised variance is then 8% (R23,352,500-R25,399,492=R2,046,992)/R25,399,492).

51. 13. Hire of vehicle and equipment. This is also due to the fact that finance leases had terminated in the 2015/2016 year, hence the need to rent the equipment under operating leases.

51. 14. The bad debts write off and provision for bad debts(refer to the line above) should have been budgeted for under one line item as the actual amount reports these 2 line items together. The total bad debts budget is R6,903,000. The total contribution to provision for doubtful debts budget is R16,449,500. This equates to a total budget of R23,352,500. The revised variance is then 8% (R23,352,500-R25,399,492=R2,046,992)/R25,399,492)

51. 15. The bulk purchases related to the purchase of Electricity. There was a decrease in the purchase of bulk electricity compared to the budgeted figure.

51. 16. Although transfers and subsidies was budgeted for an amount of R100,000, this should not have been the case as the municipality is not required in the ordinary course of business to incur transfer and subsidy expenditure

51. 17. Increase in legal and finance costs relating to the Claveshay court case.

52. Expropriation of land relating to case number 8935/2006

A court order stamped 27 July 2017 relating to case number 8935/2006 between Claveshay Estates and Abaqulusi Municiplaity has ordered the municipality to pay an amount of R25, 100, 100 in terms of the expropriation of land.

The defendant being the municipality was further ordered to pay interest on the sum of R25, 100, 100 as from 12 June 2006 at the rate of 15.5% until the date of payment there-off.

Based on the above court order, a total amount of R37, 933, 399 was deducted from the municipality's bank account in the current financial year.

The R25, 100, 100 was taken to Assets Under construction, being the "compensation" stipulated in the last judgement.

The reason the property was taken to assets under construction is because, the property includes many structures with various uses (including infrastructure and buildings), and a proper unbundling/componentisation must be performed with identification of "fair value" as at 30 June 2018 for all structures. The asset will be recorded as Work in Progress (WIP) at year end until this process can be completed.

The balance of the funds deducted from the municipalities bank account relate to finance costs which as per the order by the court in July 2017 has accrued since 12 June 2006.

As a result of the above amounts which have been deducted from the municipality's bank account, the unspent grants are not cashed back at year end.